

# GLOBALIZATION AND ITS IMPACT ON BANGLADESH ECONOMY

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Strategy

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The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the U.S. Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

## ABSTRACT

GLOBALIZATION AND ITS IMPACT ON BANGLADESH ECONOMY, by (Major Rahman Md Faizur, 76 pages.)

Over the past decades, globalization has now become a new world order, which virtually influences everything that comes in our mind. Developing countries like Bangladesh with vulnerable geopolitical locations and weak economies are now looking at globalization to strengthen their economy to fight any perceived threats. But the increasing role played by the western dominated institutions such as, the World Bank (WB), International Monetary Fund (IMF), and the World Trade Organization (WTO) in setting the rules under which globalization is played, has placed developing countries in a much disadvantageous position vis-à-vis the developed countries. However, a closer look at the globalization will show that it has both positive and negative impacts on the economy of Bangladesh. A thorough understanding of the effect of globalization is needed to use its advantages to improve her economy. This may also help Bangladesh maintain a sustained growth in the face of likely economic peril. This paper studies both negative and positive impacts of globalization on some selected economic sectors of Bangladesh. It also studies some ameliorative measures to overcome the negative impacts and also the ways to exploit the opportunities created. Finally the paper recommends some measures for Bangladesh to meet the challenges of economic globalization.

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## ACRONYMS

API	Active Pharmaceutical Ingredients
ASEAN	Association of South East Asian Nations
CBI	Caribbean Basin Initiative
FDI	Foreign Direct Investment
GSP	Generalized System of Preferences
IMF	International Monetary Fund
IT	Information Technology
LDC	Least Developed Countries
MFA	Multi Fibered Agreement
MNE	Multinational Enterprise
RMG	Ready Made Garments
SAARC	South Asian Association for Regional Cooperation
SAP	Structural Adjustment Programs
SME	Square Meter Equivalent
SOE	State-Owned Enterprises
TRIPS	Trade Related Aspect of Intellectual Property Rights
US	United States
USA	United States of America
USTDA	United States Trade Development Act
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organization

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## CHAPTER 1

### INTRODUCTION

Globalization in the broadest sense implies integration of economies and societies across the globe through the flow of technology, trade and capital. It basically refers to a process that enables people, goods, information, norms, practices and institutions to transcend national jurisdictions through markets, technologies, interests and information flows. Four types of changes characterize globalization. First, it involves a stretching of social, political and economic activities across frontiers, regions and continents. Second, it is marked by the growing magnitude of interconnectedness and flows of trade, investment, finance, migration, culture, etc. Third, it can be linked to a speeding up of global interactions and processes. And fourth, the effects of distant events can be highly significant elsewhere and specific local developments can have considerable global consequences. Thus the boundaries between domestic matters and global affairs become increasingly fluid. Globalization, in short, can be thought of as the widening, intensifying and growing impact of worldwide interconnectedness. It causes an expansion in the volume and variety of cross border transactions in goods and services.

Globalization is a long-term process of change. It has economic, political and cultural dimensions, all of which can have a social impact. The different dimensions of the process are interrelated and mutually reinforcing. There are, undoubtedly, significant potential benefits of globalization. Openness to foreign direct investment can contribute to growth by stimulating domestic investment, improving efficiency and productivity, or by increasing the knowledge applied to production. Increased access to the domestic financial system by foreign banks may raise the efficiency of the banking process thereby

lowering the cost of investment and raising growth rates. Trade openness may facilitate the acquisition of new inputs, less expensive or higher-quality intermediate goods and improved technologies that enhance the overall productivity of the economy.

Conversely, the process of globalization entails significant risks and potentially large economic and social challenges, particularly to the developing countries. Openness to global capital markets has brought greater volatility in domestic financial markets, particularly in countries whose financial systems were weak to begin with and whose economic policies lacked credibility. Similarly trade liberalization has led in some countries to reduced demand for unskilled labour, lower real wages, job losses and income declines which have often resulted in higher poverty rates. As a result, there have been growing concerns about the negative effects of globalization, and an increasingly polarized debate on the plight of the worlds poorest.

It is very clear that the phenomenon of globalization has come to stay. In fact, globalization has been described as a fast moving train that waits for nobody.<sup>1</sup> Intended passengers either jump onto it or risk of being left behind. Like every journey, every passenger must be prepared to board at the right station, with the necessary kits and with a clear knowledge or vision of his destination. There are obvious indications that Bangladesh is ill prepared to start this journey and cope with the developments. Apart from the fact that most developing countries lack the basic infrastructure to embark on industrialization drives, the inability to make sound economic policies, unpredictability of changes in laws and pervasive corruption are critical obstacles to development.

Therefore, one of the greatest challenges faced by Bangladesh in this century is how to

strengthen its participation in the global economy in a manner that will bring widespread and sustainable benefits to its people.

### Motivation and Significance of the Research

The motivation that I have for this research is based on the fact that I am a Bangladeshi who has seen and experienced the impact of globalization phenomenon on economic development. Recently I have traveled abroad quite frequently which gave me the opportunity to see and feel the use of globalization as a direct force contributing in building firm and stable economic growth. I take great interest in globalization issues and because of my interest; personally I could see the views of other countries regarding globalization and its use in economic development. I have also marked how these countries use globalization to their advantage. Having compared the socio-political and economic environment of Bangladesh and the countries visited, I am now in a position to understand the likely effects of globalization on Bangladesh economy. I would like to take this opportunity to do the research based on my experience and understanding of the subject from my reading.

### Problem Statement

In today's post-Cold War world, security covers numerous areas to include: religious-cultural, socio-economic, and politico-military concerns. Some of the positive aspects of the post-Cold War world are the increased economic integration of free markets, technologies, and even countries (as in the European Union). Some negative aspects include the idea that the security environment is enduring an "unstable peace"

and a certain amount of chaos exists caused by a myriad of political instabilities and folks seeking to cause more destabilization.<sup>2</sup>

Continuing global economic integration is clashing with global political violence. General causes of instabilities tend to be exploited by bad guys such as rogue states, insurgents, terrorists, political actors, drug traffickers, organized crime syndicates, militant fundamentalists, and many others with a cause and will to impose their self-determined desires to change a society, nation-state, or other perceived source of power, in an image that fits their ideology.<sup>3</sup>

To ensure their survival nation-states like Bangladesh have to wield their power, through many different means; some states, obviously, are more capable having more means than others. Determining how best to wield powers of state and against whom to wield power is one of the main tenets of security policy. Leaders of states have to determine what are the interests of the state vis-à-vis the people it represents and take into consideration threats the state faces. With the security of the state, and hopefully more so the security of the people, being paramount, a brief survey of the types of threats confronting nation-states seems rather appropriate.

Threats to nation-states will most likely come from one or more of three types: internal (locally disaffected persons), external (hostile neighbors) or asymmetric (Weapon of Mass Destructions, Cyber/Infrastructure attacks, Drug traffickers, ultra-criminals, and terrorists). Threats Bangladesh is likely to face over the coming decades fit within this construct. Notable are: proliferation of drugs and arms, growth of organized crime, disenchanted minorities (ethnic and religious) resulting in insurgency, foreign intelligence services using Bangladesh to their advantage, insurgents from neighboring

north-east India attempting to hide-out, and the rise of religious fundamentalism attempting to win power through revolution.<sup>4</sup> Arrayed against Bangladesh are robust threats that should concern its leaders. Leaders should consider how these threats are more or less likely to arise, and how to combat or, even better; prevent these threats from becoming immediate dangers.

One main cause of concern currently being focused on throughout the world is the view that globalization is a security threat to the state and permits the proliferation of the threats stated above. It seems easy to just throw the woes of the world, all the security concerns at the feet of a newly contrived word--globalization. "At times, it reaches a level where all the ills of the country, including pollution and deforestation, even minority bashing and the sale of gas, are explained by finger pointing at the forces of globalization."<sup>5</sup> Essential to being able to blame this new word would be a tacit understanding of what is meant by it.

If globalization is nothing new, why is it a matter of concern to students of security issues? Mostly because security is broader than just defense, it also encompasses the realms of socio-economics, politics, and defense. Because globalization is perceived as a vast subject that can impact all aspects of the world, or a nation, it becomes a security concern. Countries able to develop infrastructure and maintain a general sense of law and order and governmental stability have reaped growing benefits of development, as realized by higher levels of foreign direct investment (FDI) within their countries. With Bangladesh's immature communications system, lack of solid law and order, as well as corruption and instability have so far negatively affected its growth potentials and

development opportunities; subsequently Bangladesh has not received much comparatively in the way of FDI to keep it 'globalized.'

Bangladesh's security will increase as development increases. Increasing development will lead to fewer chances of internal threats. Increased economic and trade ties with neighbors and friendly foreign countries will lead to an increase in external security, and also to more cooperation in battling asymmetric threats that can embattle any country. As the United Nation's panel expressed, "In the area of economics, rapid advance of technology, sharp decrease in transportation and communication costs and a series of international agreements have led to greater internationalization of trade, finance and investment. In this sense, globalization has contributed to higher productivity, to a rise in the living standards and to new development opportunities."<sup>6</sup> It shall be considered whether Bangladesh will be able to look toward the future and get the country moving in a direction towards greater foreign direct investment "globalization" that will lead to economic freedom, more prosperity and greater security.

Bangladesh as a developing country is not immune to the challenges of globalization. In the era of globalization, she is confronted with threats emanating from both external and internal sources. Under the impact of globalization, development and economic security perception in Bangladesh has undergone some perceptible changes over the past few years. Bangladesh faces vital challenges in terms of ecological integrity, financial stability, identity and social cohesion from national, regional and global levels. The country needs to protect her socio-economic, political and environmental interests to face the challenges in the era of globalization. There is a cogent need to broaden the scope for prosperity through the creation of a modern and



efficient economy. The challenge before the country is how to attain this goal in an environment where major economic decisions affecting national life are often determined by the international market.

Economic globalization is a process of rapid economic integration between countries that is driven by the increasing liberalization of international trade and foreign direct investment. Liberalization of the economy in Bangladesh seemed an inevitable measure to meet the economic challenges of globalization. Whether it has derived benefits for the country or not remains a point to be analyzed. Some argue that the country has opened up to the world economy too fast and suffered in consequence, while some wrangle that a low technological base and poor governance is responsible for her present hesitant position. It could be understood that perceptible changes have occurred in the economy in terms of structural composition, employment pattern and trends in growth of private and public sectors due to trade liberalization.<sup>7</sup> In the interests of the very survival of Bangladesh, there is a need to foresee the impact of globalization on her economy. A thorough understanding of the impact may give a scope to fore plan the whole affair and prepare for any likely ill effects on her economy. This may also help her maintain sustained growth in the face of likely economic peril. In order to find out the most suitable option for Bangladesh this research will focus on the following research questions.

### Research Questions

The primary question of this thesis is: What should Bangladesh do to use the advantages of globalization in improving her economy?

### Hypothesis

The hypothesis to be tested is that, ‘increased interdependence or interconnectedness as a result of globalization, and the liberalization and expansion of international trade and finance, has improved the economic condition of Bangladesh.’

To test this hypothesis several other questions must also be answered. In the following paragraph these questions are listed as secondary questions.

### Secondary Questions

The proponents of globalization have rightly argued that it creates a more stable environment for investment and expansion of economic activity, leading to job creation, wider choice of low cost goods and rapid increase in capital and private investment flows leading to development. It has equally been argued that greater access to the world market has allowed countries to exploit their comparative advantages more intensively while opening their economies to the benefits of increased international competition. On the contrary, anti-globalization activists argue that trade liberalization favors the advanced economies to the detriment of weak ones, widens inequality between and within nations, leads to increased poverty and ultimately to instability and conflicts especially in the developing countries. Secondary questions that need to be addressed in this thesis are:

1. What are the main causes of Bangladeshis being out of the flow of the global economy?
2. What should Bangladesh do to encourage substantial foreign investments in Bangladesh?

3. Does Bangladesh have the preparations and the preconditions to sustain her position in the global economy if well utilized?

4. What are the options available for Bangladesh?

In succeeding chapters these questions will be answered by reviewing four factors found in Thomas Friedman's concept of the 'golden straitjacket' that seems most relevant for improving Bangladesh's economy in this era of globalization.

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<sup>1</sup>Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Anchor Book, 2000): 417.

<sup>2</sup>Max G. Manwaring, *The Inescapable Global Security Arena* (Carlisle, Pennsylvania: Strategic Studies Institute, 2002), 1.

<sup>3</sup>Ibid.

<sup>4</sup>Air Commodore Ishfaq Ilahi Choudhury, ndc, psc, "Defence Budget of Bangladesh: How much is enough?" *Mirpur Papers* no.7, (December 2001): 74.

<sup>5</sup>Imtiaz Ahmed, "Poverty Alleviation and Macro-Micro Linkages: Critical Issues," *BISS Journal* 23, no. 1 (January 2002): 113.

<sup>6</sup>Report on 56th Session of the United Nations General Assembly Second Committee, "Globalization and the State." *High-Level Panel*, 2 November 2001; [report online] available from <http://www.un.org>; accessed on 11 December 2004.

<sup>7</sup>Munim Kumar Barai, "Globalization and Recent Changes in the Economy of Bangladesh," *Bangladesh Institute of International and Strategic Studies* 24, no. 2, (April 2003): 155.

## CHAPTER 2

### LITERATURE REVIEW

#### General

Many books and articles have discussed the various effects of globalization exhaustively. These studies include globalization as a phenomenon in general and the positive and the negative impacts of globalization in particular. Even though many books and articles have addressed globalization from the developing countries point of view, few even mention its impact specifically on Bangladesh. Globalization is a growing concern and it is perceived as a vast subject that can impact all aspects of the world, or a nation. People blame globalization for affecting everything from culture, to political systems, to religious institutions, and the economy; all of these perceived impacts of globalization would impact Bangladesh differently. It is important to determine how exactly it can impact Bangladesh. This paper will concentrate on finding viable options for Bangladesh to sustain the world of global economy. The paper will also focus on the measures that Bangladesh might consider in using the effects of globalization in its economic growth.

The literature generally looks at globalization from three different angles. These are:

1. Globalization as a phenomenon.
2. The positive impact of globalization.
3. The negative impact of globalization.

## Globalization as a Phenomenon

### Historical Foundation

The origin of the concept of globalization stretches far back to the activities of the early Mediterranean civilizations before the fifth century A.D.<sup>1</sup> The ancient explorers, motivated primarily by the prospects of material gain, traversed the “silk route” between China and Europe, the “amber route” from the Baltic to the Mediterranean and the “spice route” by sea between Egypt, the Yemen and India. During this period, up to the end of the fifteenth century, the volume of long distance trade, travel, and communications was inevitably irregular.<sup>2</sup> Increased trading expeditions by British, Dutch, and Portuguese merchants in the seventeenth century raised the demand for colonial goods such as coffee, tea, sugar, tobacco, and chocolate. The requirement for more production of these goods as the demand increased prompted the beginning of slave trade from Africa to the Americas and Europe.<sup>3</sup> Following these expeditions, European languages were easily transplanted to other continents and the three monotheistic religions namely Islam, Christianity and Judaism took root. In the nineteenth century, the technology revolution in transport and communications including the emergence of the railway, the telegraph and the steam ship all lowered freight rates and raised incomes therefore further boosting globalization.<sup>4</sup>

Globalization witnessed its greatest upsurge in the last two decades of the twentieth century with faster modes of transport and revolutions in information technology and communications being the major contributors to its growth. The collapse of the isolationist era of cold war finally brought home the new integrated world of globalization. Today, globalization has become a particularly fashionable way to analyze

changes in the international economy and world politics. Friedman in his book 'Lexus and the olive tree' describes globalization as 'the dominant international system at the end of the twentieth century, replacing the Cold War system'<sup>5</sup>. He describes globalization as the new international system, which 'shapes virtually everyone's domestic politics, commerce, environment and international relations'<sup>6</sup>. According to him the overarching feature of the cold war system was division. It influenced the domestic politics, commerce and foreign relations of virtually every country in the world. It shaped many things, but it didn't shape everything. On the other hand, globalization has only one overarching feature—integration. It is all about joint ness and ever increasing interconnectedness. It virtually influences everything, whether it is a company or a country.<sup>7</sup>

### Core Elements of Globalization

Basically, globalization rests on a tripod namely, the expansion of markets (economic), challenges to the state and institutions (political), and the rise of new social and political movements (cultural).<sup>8</sup> Economically, technological changes and government deregulation have permitted the establishment of transnational network in production, trade, and finance creating what is referred to as a "borderless world."<sup>9</sup> The new production network describes firms and multinational enterprises (MNEs) who use advanced means of communications and new technologies to spread their activities across the globe.

The second element affects States. Political power and activities extend across the boundaries of nation- states while policy making on issues such as human rights, environmental degradation and nuclear safety have required global consensus. The third

element of globalization affects more than markets and states. It is altering the lives of people across the globe. Fast dissemination of media, books, music, international ideas and values has produced a somewhat global culture.

### Key Institutions of Globalization

The main pivot of propagating economic globalization lies with certain powerful financial institutions that are solely in the hands of western countries. They include the International Monetary Fund (IMF), World Bank (WB), and the World Trade Organization (WTO). These institutions, collectively known as the Bretton Woods institutions, largely influence economic and political policy formulation in developing countries. For example, one of the conditions usually imposed on developing countries in order to qualify for loans from these institutions is the removal of subsidies and deregulation of the public sector. In contrast, developed nations themselves have continued to subsidize agriculture to the tune of US\$1 billion a day.<sup>10</sup> This double standard has characterized the activities of these institutions since their inception. The organizations are used by the United States (US) and the other industrialized nations in the G8, to impose financial discipline and liberal economic policies on the developing countries, but no mechanism exists that forces the rich countries to play by the rule they set for others. Moreover, the decision-making structure discriminates against developing countries therefore condemning developing countries to an inferior position in these organizations.<sup>11</sup>

The views of IMF policies tend to be counter-productive especially for the developing countries.<sup>12</sup> They actively compelled the developing countries through loan conditional ties to adopt Structural Adjustment Programs (SAP) which require them to

reduce government spending, end public subsidies, devalue their currencies, adopt export oriented policies, and raise interest rates to reward foreign investors. Apart from the fact that the attachment of conditions to loans has been criticized as unwarranted intervention in the affairs of a sovereign state, most of the countries of the third world that adopted these policies are beset with tales of woes.<sup>13</sup> If anything has changed in those countries, it is that poverty has become more rampant therefore exposing the failure of these institutions.<sup>14</sup> According to former WB Chief Economist Mr Joseph Stiglitz, countries that ignore IMF fare better.<sup>15</sup> Developing countries of the third world are groaning under the yoke of these institutions. Its huge debts to these organizations are stifling development. These countries therefore demand a greater say in these bodies, the total cancellation of their debts, and long term development plans in place of the usual emergency loans that become the burden of developing countries generations yet unborn.

### Globalization Phenomenon Continues

Tom Friedman defines globalization as the dynamic integration of the world's systems.<sup>16</sup> Joseph Stiglitz, ex- World Bank Chief Economist and Clinton Administration advisor, terms it "the integration of the countries and peoples of the world ... and the breaking down of artificial barriers to the flows of goods, services, capital, knowledge, and (to a lesser extent) people across borders."<sup>17</sup> Complementary to this, yet a bit more refined, is the explanation by Micklethwait and Wooldridge of The Economist, that globalization is based on freedom and is, "the freer movement of goods, services, ideas, and people around the world."<sup>18</sup> A recent United Nations panel on the impact of globalization "... confirmed that globalization was not just a phenomenon of the market place or financial transactions. It had also been spreading globally political paradigms,



cultural patterns and social ideas. It has led to standardization of the world's security systems. This way, globalization had been affecting the sovereignty of nation states and many of the established political, economic and social structures. Globalization is driven by both push-up and push-down trends.”<sup>19</sup> Renato Ruggiero in his article, Next Steps in Strengthening the Global Trading System explains, ‘Globalization is not an option. It is a reality. Globalization is a high-speed train that is running very fast already. Anyone who believes that globalization can be stopped has to tell us how he would envisage stopping economic and technological progress. This is tantamount to trying to stop the rotation of the earth.’<sup>20</sup> Friedman in his book ‘Lexus and the olive tree’ compared globalization with a high-speed train, which cannot be slowed down to allow its intended passenger to board in. The only reason for this nonstop movement of the globalization train is because: it does not have anyone at its controls.<sup>21</sup>

There are now two major points of view on the impact of globalization throughout the world. One talks in favor of the globalization while others opines against it. Those who favor globalization tend to use the macro analysis to support their arguments. For example, Friedman sees globalization as the new defining character in the international system, which he also identifies to be the ultimate option for all and believes it is for the benefit of the participants in it. Proponents of the other view use the case study method for their analysis and they argue that globalization is not all good highlighting the adverse effects on certain segment of human development index, employment, and growth of economy. Opponents of globalization include people and organizations with very diverse concerns, cultures, and goals. They tend to agree, however, that the benefits claimed for globalization are deceptive, or accrue only to elites.

### The positive impact of globalization

“Globalization” can be explained as a major mean to increase the worldwide trade and exchanges in an increasingly open, integrated, and borderless international economy. There has been remarkable growth in trade and exchanges, not only in traditional international trade in goods and services, but also in exchanges of currencies; in capital movements; in technology transfer; in people moving through international travel and migration; and in international flows of information and ideas due to globalization. One measure of the extent of globalization is the volume of international financial transactions, with some \$1.2 trillion flowing through New York currency markets each day, and with the volume of daily international stock market transactions exceeding this enormous amount.<sup>22</sup>

Globalization has involved greater openness in the international economy, an integration of markets on a worldwide basis, and a movement toward a borderless world, all of which have led to increases in global flows. There are several sources of globalization over the last several decades. One such source has been technological advances that have significantly lowered the costs of transportation and communication and dramatically lowered the costs of data processing and information storage and retrieval. A second source of globalization has been trade liberalization and other forms of economic liberalization that have led to reduce trade protection and to a more liberal world trading system. A third source of globalization has been changes in institutions, where organizations have a wider reach, due, in part, to technological changes and to the more wide-ranging horizons of their managers, who have been empowered by advances in communications. A fourth reason for globalization has been the global agreement on

ideology, with a convergence of beliefs in the value of a market economy and a free trade system.<sup>23</sup>

Friedman in his book 'The Lexus and the Olive Tree' attributes the explosive growth of free market globalization to three factors; the democratization of technology, the democratization of finance, and the democratization of communications. The fact these three elements of economic growth are more accessible to most people to explain why today, as Friedman says it, "free markets and free trade produce far greater incomes for a society as a whole."<sup>24</sup> Now this opportunity is open to so many more people through changes in technology, finance, and communications, but also in a speed at which the business can be accomplished today provides huge opportunities to many who were not previously part of the global economy. Friedman reports that according to the U.S. Treasury, in the 1990s, \$1.3 trillion in private funds were invested in emerging market economies, compared to a mere \$170 million in the 1970s. These private investments are one of the elements that account for the unprecedented prosperity in the world as we enter the twenty-first century.<sup>25</sup>

Along the way, as Friedman explains the democratization of technology, he introduces those of us outside of high tech circles to the concepts of digitalization and bandwidth. He provides an understanding of what is happening with the Internet, from technological, business, and stewardship standpoints. As Friedman puts it, "We are responsible for making God's presence manifest by what we do. And the reason that this issue is most acute in cyberspace is because no one else is in charge there."<sup>26</sup>

Globalization has led to growing competition on a global basis. While some fear competition, there are many beneficial effects of competition that can increase production

or efficiency. Competition and the widening of markets can lead to specialization and the division of labor. Specialization and the division of labor, with their implications for increases in production, now exist not just in a nation but also on a worldwide basis. Other beneficial effects include the economies of scale and scope that can potentially lead to reductions in costs and prices and are conducive to continuing economic growth. Other benefits from globalization include the gains from trade in which both parties gain in a mutually beneficial exchange, where the “parties” can be individuals, firms and other organizations, nations, trading blocs, continents, or other entities.<sup>27</sup> Example, Recently the most impressive gain had been in the poverty reduction associated with the opening up of China and India. Globalization had spurred economic growth and industrial productivity, and had helped China come to grips with the country’s major challenge: employment. In India, the message was more mixed. There had been winners and losers. The lives of the educated and the rich had been enriched by globalization. The information technology (IT) sector was a particular beneficiary.<sup>28</sup>

#### The negative impact of globalization

Globalization involves not only benefits, but also has costs or potential problems that some critics see as great perils. These costs could lead to conflicts of various types, whether at the regional, national, or international level. One such cost or problem is that of who gains from its potential benefits. There can be substantial equity problems in the distribution of the gains from globalization among individuals, organizations, nations, and regions. Indeed, many of the gains have been going to the rich nations or individuals, creating greater inequalities and leading to potential conflicts nationally and internationally. Here the example of Tanzania by Pallast can be brought again. WB and

IMF claim their role in Tanzania a success but the rise in poverty indicator since their involvement and the amount of annual government spending to pay off the interest of the debt does not really support their claims.

A second cost or problem stemming from globalization is that of major potential regional or global instabilities stemming from the interdependencies of economies on a worldwide basis. There is the possibility that local economic fluctuations or crises in one nation could have regional or even global impacts. This is not just a theoretical possibility as seen in the exchange rate and financial crisis in Asia, starting in Thailand in 1998 and then spreading to other Southeast Asian economies and even to South Korea. These linkages and potential instabilities imply great potential mutual vulnerability of interconnected economies.

A third type of problem stemming from globalization is that the control of national economies is seen by some as possibly shifting from sovereign governments to other entities, including the most powerful nation states, multinational or global firms, and international organizations. The result is that some perceive national sovereignty as being undermined by the forces of globalization. Thus globalization could lead to a belief among national leaders that they are helplessly in the grip of global forces and an attitude of disaffection among the electorate. The result could be extreme nationalism and xenophobia, along with calls for protectionism and the growth of extremist political movements, ultimately leading to potential conflicts.<sup>29</sup>

The one issue that came to the forefront time and time again was employment and livelihoods. While people largely favor more openness and interconnection between societies, they are much less positive when asked about the impact on their jobs and

incomes.<sup>30</sup> For many, globalization was not delivering on its promises, and particularly not delivering decent work. “Workers can hardly trust the current model of globalization when they see every day a growth of the informal economy, a decline in social protection and the imposition of an authoritarian workplace culture,”<sup>31</sup> said a trade union leader. But even in a country as successful as Costa Rica the participants in the dialogue felt that the majority of citizens, regardless of their income level or social status, perceived more threats than opportunities in globalization. Unstable global financial markets, in particular, had had disastrous social consequences in many countries, due both to inadequate government policies and to poor understanding of local conditions by the IMF and foreign banks. The middle classes in Argentina and Uruguay had been hit particularly hard. In Asia most participants of globalization sees it working selectively: beneficial for some countries and people, but not for others. The most impressive gain had been in the poverty reduction associated with the opening up of China and India. Yet some 1 billion people in the region had hardly seen any reward. The process had to be managed to make it more inclusive.

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<sup>1</sup>James Foreman-Peck, *Historical Foundations of Globalization* (UK: Edward Elgar, 1998), 14.

<sup>2</sup>The volume of long distance trade was small and restricted to items (or people) of high value in relation to weight and bulk simply because transport was so expensive, pirates and robbers were frequent at sea and transit taxes often impeded traffic.

<sup>3</sup>Foreman-Peck, 17.

<sup>4</sup>James Foreman-Peck, *A History of the World Economy: International Economic Relations since 1850* (UK: Harvester Wheatsheat, 1995), 33.

<sup>5</sup>Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Anchor Book, 2000), xix.

<sup>6</sup>Ibid., xx.

<sup>7</sup>Ibid., 8.

<sup>8</sup>Woods Ngairé, *The Political Economy of Globalization* (UK: Palgrave, 2000), 3.

<sup>9</sup>K. Ohmae, *The Borderless World* (London: Collins, 1990), 20.

<sup>10</sup>World Bank Annual Report (2000), 2. (The WB estimates that a cow in Japan received US\$1.7 subsidies a day while a cow in Europe got more than US\$2 subsidy a day. To put this in context, about a billion people most of who live in Africa survive on less than a dollar a day while cows in some parts of the world live better.)

<sup>11</sup>Marc Williams, *International Economic Organizations and the Third World*, (UK: Harvester Wheatsheaf, 1994), 107, (for example, the G8 governments currently control more than 40 percent of the IMF executive board while 43 countries in Africa jointly control less than five percent. In the WB the G8 controls more than 50 percent of the voting power while 22 African States share 1.86 percent).

<sup>12</sup>Adams Patricia, "Odious Debts: Loose Lending." *Corruption and the Third World's Environmental Legacy* (London: Earthscan, 1991), 79.

<sup>13</sup>Marc Williams, 52.

<sup>14</sup>Gregory Pallast, "IMF Shock Cures are Killing off Patients," *The Zambia Post*, (21 November, 2000), 3. (Consider Tanzania which the IMF and WB regard as a success. From its stable and relatively peaceful polity at independence in 1961, and its two decades of self reliant economy, Tanzania since the introduction of IMF's SAP has become one of the poorest nations in the world. Available statistics show that more than 50 percent of the population lives in dire poverty up from less than 21 percent in the mid 1980s. Today, Tanzania's debt to IMF and WB stands at US\$6.4 billion with the government spending 40 percent of its annual revenue on interest payment; more than what it spends on health and education combined.)

<sup>15</sup>Joseph Stiglitz, *Globalization and Its Discontents* (UK: Penguin, 2002), 63.

<sup>16</sup>Friedman, 8. (He goes on to indicate that the *Web* is the signifying characteristic of globalization.)

<sup>17</sup>Stiglitz, 9. (His whole treatise is that the mismanagement of globalization has had negative effects on the world system, not that globalization impacts the world negatively.)

<sup>18</sup>John Micklethwait and Adrian Woodridge, *A Future Perfect; A Challenge and Promise of Globalization* (New York: Random House, 2003): xix. (They add that globalization is a process rather than a fact or structure.)

<sup>19</sup>Report on 56th Session of the United Nations General Assembly Second Committee, “Globalization and the State.” *High-Level Panel*, 2 November 2001, available from <http://www.un.org>; Internet; accessed on 11 December 2004.

<sup>20</sup>Renato Ruggiero, *Next Steps in Strengthening the Global Trading System*, available from <http://www.trilateral.org/nagp/regmtgs/96/0417rugg.htm>; Internet; accessed on 11 December 2004.

<sup>21</sup>Friedman, 343.

<sup>22</sup>Michael D. Intriligator, Professor of Economics, Political Science, and Policy Studies Director, Burkle Center for International Relations, University of California, Los Angeles, *Globalization of the World Economy: Potential Benefits and Costs and a Net Assessment*, available from <http://www.sppsr.ucla.edu/cgpr/docs/workingpaper2.doc>; Internet; accessed on 16 March 2005.

<sup>23</sup>*Ibid.*, 2-3.

<sup>24</sup>Friedman, 138.

<sup>25</sup>*Ibid.*, 116.

<sup>26</sup>*Ibid.*, 469.

<sup>27</sup>Intriligator, 4.

<sup>28</sup>*Ibid.*, 5.

<sup>29</sup>*Ibid.*, 6.

<sup>30</sup>Survey report, “Global Issues Monitor 2002.” *EnviroNics International*, (Toronto): May 2002, 5.

<sup>31</sup>According to a survey by Latinobarómetro (Santiago, Chile) in 2002, over 40 per cent of people in Latin America rated unemployment, labour market instability or low wages as their most important problem. The same survey indicated that a majority of respondents considered that government economic policies are responsible for the problems, while 22 per cent blamed globalization and 23 per cent the IMF (special tabulations from the regular Latinobarómetro survey, available from [www.latinobarometro.org](http://www.latinobarometro.org); Internet; accessed on 16 March 2005.)



## CHAPTER 3

### RESEARCH CONCEPT

#### Golden Straitjacket

Friedman in his book *The Lexus and the Olive Tree* recognizes what he calls ‘Golden Straitjacket’ to be the ultimate destination of a country looking for her place in the global economy. Friedman defines ‘Golden Straitjacket’ as a ‘political-economic garment of the globalization era.’<sup>1</sup> The Golden Straitjacket first began to be stitched together and popularized in 1979 by British Prime Minister Margaret Thatcher--who, as the original seamstress of the Golden Straitjacket, will go down in history as one of the great revolutionaries in the twentieth century. Ronald Reagan, giving the straitjacket and its rules some real critical mass, reinforced it. It became a global fashion with the end of the Cold War, once the three democratizations blew away all the alternative fashions and all the walls that protected them. The Thatcherite-Reaganite revolution came about because popular majorities in these two major Western economies concluded that the old government directed economic approaches simply were not providing sufficient levels of growth. They combined to strip huge chunks of economic decision-making power from the state, from the advocates of the Great Society and from traditional Keynesian economics and hand them over to the free market. To fit into the Golden Straitjacket, a country must either adopt or be seen as moving toward the following:<sup>2</sup>

1. Making the private sector the primary engine of its economic growth
2. Maintaining a low rate of inflation and price stability
3. Shrinking the size of its state bureaucracy
4. Maintaining as close to a balanced budget as possible, if not a surplus

5. Eliminating and lowering tariffs on imported goods
6. Removing restrictions on foreign investment
7. Getting rid of quotas and domestic monopolies
8. Increasing exports
9. Privatizing state-owned industries and utilities
10. Deregulating capital markets
11. Making its currency convertible
12. Opening its industries, stock and bond markets to direct foreign ownership and investment
13. Deregulating its economy to promote as much domestic competition as possible
14. Eliminating government corruption, subsidies and kickbacks as possible
15. Allowing citizens to choose from an array of competing pension options and foreign run pension and mutual funds.

### Research Design

The above-mentioned rules to fit into the Golden straitjacket will provide the guidelines for this research to find Bangladesh's present condition in the global economy. These rules will also act as the basic considerations to improve Bangladesh's economy to take the advantages of globalization. Among these rules special emphasis will be given to 'Removing restrictions on foreign investment', 'Eliminating government corruption, subsidies and kickbacks as possible', 'Making the private sector the primary engine of its economic growth', and 'Privatizing state-owned industries and utilities' which otherwise

covers the most other issues related to Bangladesh's economic globalization. Analysis of these four factors will show where Bangladesh is now and where it needs to go in future.

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<sup>1</sup>Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Anchor Book, 2000): 104.

<sup>2</sup>*Ibid.*, 104-105.

## CHAPTER 4

### ANALYSIS

In this chapter I will analyze Bangladesh today in light of the relevant criterions to become economically globalized found in Friedman's concept of the golden straitjacket.

#### Removing Restrictions on Foreign Investment

To understand the prospects and challenges of foreign investment in Bangladesh first of all we need to have a clear idea about the conditions of the basic infrastructures available in Bangladesh.

#### General

Understanding the concept that development comes from increasing resources and more efficient utilization of on hand resources is essential to understanding that, short of going to war, foreign direct investment is now the best way to obtain new resources. In this regard one of the largest problems in Bangladesh is the underdeveloped infrastructure. This section will outline a few of the key areas that most extra-national, and many Bangladeshi, corporations are interested in as a basic infrastructure to support efficient and effective business practices. Both information and logistic infrastructure of Bangladesh will be analyzed to discern whether Bangladesh has the requisite capacity to offer advantages to multinational enterprises bringing in foreign direct investment into country and creating greater economic growth potential. "Investors coming in Bangladesh find a lot of difficulties in organizing their security and expenses. I mean investment in Bangladesh looks good, but very difficult in practicing it. There are too many obstacles, especially, in obtaining telephone line, transportation and so on."<sup>1</sup> This

remark by the Italian Ambassador in response to a press question asking how more Italian investment could be directed to Bangladesh sets the tone for this passage. More than 1000 firms recently indicated that power (electricity), ports; telecommunications and business regulations constrain the investment climate.<sup>2</sup> Clearly, the lines of communication within Bangladesh need to improve to attract more globalization.

### Information Infrastructure

General. Information technology has produced significant changes in the interactions between nation-states and global markets. Globalization, or investment by foreign firms, can gain much in a networked ‘global village’ and global marketplace. The more Bangladesh becomes networked the more advantages it can offer to external sources of funding. Potential for dramatic improvements in the communication of information, as well as the facilitation of faster and more effective communication opens up possibilities for Bangladeshi businesses to connect with more moneyed sources outside the country and the opportunity to create partnerships with those firms. Indeed, globalization can provide many opportunities for new experiments and relationships. Present day technology makes globalization more feasible through increased electronic transactions and increased trade liberalization allows for greater social and economic stability.

Telephone and Internet. Lack of political commitment and bureaucratic complexity are the main hindrances in telecommunications. Infrastructure-wise it is even difficult to provide effective transparent regulators and access to the high-speed Internet system facilities to willing customers in most places of Bangladesh. By this year the density of phones needs to upgrade immediately to at least 3.3 per cent from that of 0.8

percent of 2003 to further develop the information technology. Generally lack of information and communication technologies inhibits investment growth.<sup>3</sup>

Power Grid. Bangladesh requires increased power reliability in order to attract further investment. Seventy per cent of Bangladesh's industries are forced to rely on generators because of the faulty electric grid.<sup>4</sup> At the moment the total electricity generating capability available in Bangladesh is around 2000 Megawatts whereas the present peak demand is over 2200 Megawatts.<sup>5</sup>

### Logistics Infrastructure

General. Bangladesh's road, rail and ports systems have an immediate impact on the investment within the country. Corporations require efficient movement of goods and services to stay competitive. Multiple sources indicate quick upgrades to the system are necessary to foster more investment within the country.

Road Networks. According to Halim (2003, p.24) "There is simply no accounting for the thousands of work hours that are going down the drain every day as vehicles pull up to halt at various junctions in the city. Traffic jams bring everything to a stand still, from business to education, from cultural activities to day-to-day mundane duties."<sup>6</sup> Dhaka city has only eight per cent of the city area as roads – a normal planned city has 20-25 per cent of city area as roads. This creates immediate and obvious problems for conducting efficient business. Among the issues hampering transportation and movement of goods, people and services are: inadequate public transport system; excessive non-motorized vehicles; mixed traffic and regular traffic jams; inadequate traffic management; irresponsible behavior of vehicle users; increased number of road accidents; excessive environmental pollution; and inadequate transport infrastructure.

The inadequate transport infrastructure is particularly vexing with numerous issues as well: unplanned and insufficient road network; lack of east west link roads; lack of ring roads; lack of bypass roads; unplanned land use; illegal occupation of pavements and roads; and poor quality roads.<sup>7</sup> Such conditions as this do not promote further investment within the area; it instead has the tendency to drive investors away.

Rail. There are two different systems within the country, as well as no links externally to promote trade. Major General Shakil Ahmed suggests that moderate upgrades to the current rail system and linkage over the Jamuna Multipurpose Bridge could reduce transshipment times between northern parts of the country to the southern part by half, from eight to four days.<sup>8</sup>

Port Facilities. Dollar stresses that transportation infrastructure issues play an important role in the success of countries in increasing access to world markets. In many countries, port infrastructure problems increase shipping costs dramatically. This serves to act like a maritime tax on trade and can affect domestic producers significantly.<sup>9</sup> The government is not controlling much of Bangladesh's inland waterways and ports now. This lack of political will combined with undue political influence is hindering private investment within this sector.<sup>10</sup> Recent news on television indicated crane operators at the Port of Chittagong were inhibiting quick movement of goods by lack of efficient work. According to the World Bank's report on the issue, Chittagong crane operators perform about 100 lifts per day whereas international standard is about 250 lifts per day. Similarly World Bank reports cost of moving a container through the port costs \$600, where in neighboring countries the cost averages \$225. It is expected that inefficiencies of the port cost the economy upwards of \$200 million annually.<sup>11</sup>

### Effects of Government Decisions on FDI

As early as 1993 the U.S. Ambassador to Bangladesh was telling folks that Dhaka needed further reforms in financial, trade and tariff sectors to improve the investment and industrial climate<sup>12</sup>. In 1998, The World Bank and Bangladesh centre for advanced studies joint report stated (p.21) “What has hit the consumers hard is the repeated hike in tariffs of power and gas and price of petroleum products. The increase in rates and prices of these services and commodities does always influence the prices of other commodities, both agricultural and industrial.”<sup>13</sup>

The challenges being faced by Bangladesh are how to promote its economic prosperity in the dynamic, complex and highly competitive world. At the same time, the challenge is to provide a foundation for the satisfactory performance of its economy and attracting FDI in the country. No substantial FDI is forthcoming for many reasons, mainly the political instability.<sup>14</sup>

Major Rusho makes a good point above dovetailing with the other assessments. Political forces seem to still get tangled up with knowing what is right for the future and giving in to the emotional psyche of the people. As illustrated recently by the Financial Express, they point out that the government has made a good decision to decide to consider free trade agreements, but the newspaper points out that the politics of having free trade with India are caught up by the people’s concern that they will be flooded with Indian goods.<sup>15</sup>

### Trade Policy of Bangladesh

Bangladesh joined the WTO in 1995 to avail the advantages of an open and liberal trading system. In Bangladesh, the trade liberalization process started in the mid



1980s. Export diversification and import liberalization received the highest priority in early years. Towards the end of the 1980s, import liberalization leapt forward. The government took a number of bold steps, which include liberalization of the trade and foreign investment, strengthening the financial sectors, closing and privatizing some loss-making State-Owned Enterprises (SOE) and taking steps to improve governance.

In the 1990s, the liberalization process was accelerated by progressive reduction of tariff and non-tariff barriers. A major thrust of change in early 1990s was the substitution of the multiple-rate sales tax by a 15 per cent Value Added Tax (VAT)<sup>16</sup>. In addition to the dismantling of non-tariff restrictions, there had also been a drastic cut in nominal protection rates over the years. Figure 1 and 2 shows the reduction in tariff barriers as a result of the liberalization process.

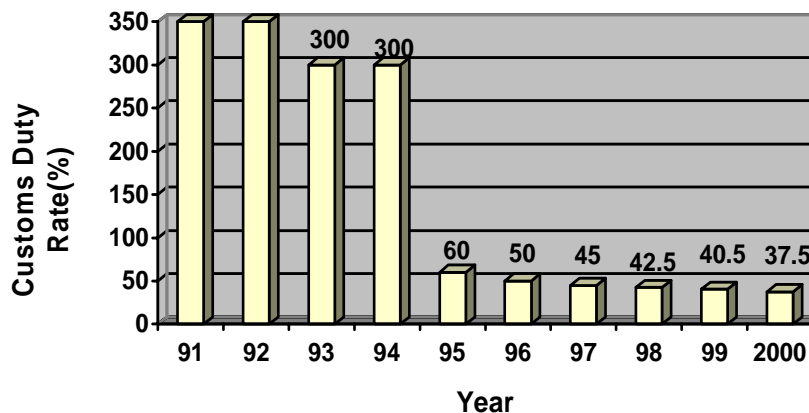


Figure 1. Trends in Reduction of Customs Duty Rate

Source: World Trade Organization, *Trade Policy Review: Bangladesh*, May 2000, 11.

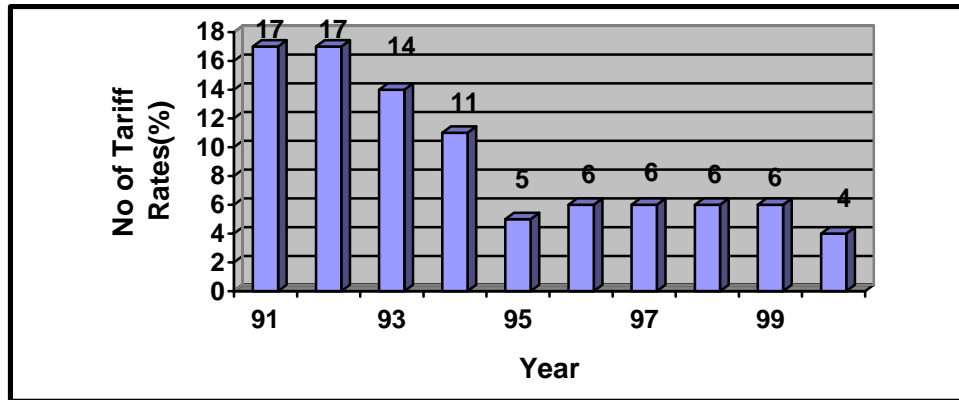


Figure 2. Trends in Reduction of Number of Tariff Rates

Source: World Trade Organization, *Trade Policy Review: Bangladesh*, May 2000, 10.

The customs tariff is the main instrument of Bangladesh's trade policy. It is also the government's principal source of revenue, accounting for nearly one third of total taxes. Bangladesh has made considerable efforts to simplify and rationalize the tariff structure by reducing the number of tariff bands from 15 in 1992/93 to 5 in 1999/2000, and lowering the maximum tariff rate from 300 to 37.5 per cent during the same period<sup>17</sup>. Direct subsidies are provided to exporters of textiles and clothing, and were recently extended to exporters of some other products. Bangladesh has further opened up many of the state-dominated sectors to private investment such as telecommunications, power generation, and transport. In an effort to encourage investment, the government offers a wide range of open-ended tax incentives, notably tax holidays and accelerated depreciation.

### Eliminating Government Corruption and the Challenges of Law and Order

#### General

“Economic markets everywhere conform to the peculiarities of local history, social structure, psychology, religion and politics. These forces influence the desire to

work, consume, invest, save, and take risks. [It] is an illusion to think economic weakness stems only from economic causes and can be cured quickly by economic remedies.”<sup>18</sup>

For a nation like Bangladesh there has recently been, “stressed the need for ‘political structural adjustment’ for the economic development of Bangladesh.”<sup>19</sup> Foreign Investors want to know what the law is, that their rights will be upheld, and that their property, goods and services will be protected. Investors do not want to have to pay a bribe to get their shipment out on time. In Bangladesh at present bribes are often required to get shipments moving and to push through bureaucratic paperwork; the bribes have the effect of driving up costs to the businessman and subsequently consumers will see an increase in pricing. This has a bad effect of creating an unfavorable situation for the average consumer who has to take on the burden of the added cost when they purchase a good or service. Inder Malhotra points out that, “This [arrogance and greed on the part of the ruling party], like corruption and bad governance, was a malaise common to whole of South Asia but afflicted Bangladesh to an uncommon degree. No wonder the economic situation deteriorated sharply.”<sup>20</sup> In concurrence with this idea is Zahid who states, “Governance and corruption are administrative issues having serious financial implications.”<sup>21</sup>

### Governance

Good governance has emerged as one of the most important prerequisites for development. This is both because of the role of government as a builder and provider of institutions, and because the failure of governance can lead to an overall political breakdown. Once a country becomes a “failed state” (Yugoslavia, several African countries) development can be set back by decades. Weak governance has been an

overriding characteristic of the poorest performing economies. Globalization has put a premium on good governance, because of the need to put in place policies and institutions demanded by an increasingly competitive global market place, because of pressures on governments to be transparent and more accountable to their citizens, and because of the higher costs of mismanagement.<sup>22</sup>

There is a new development paradigm that focuses on institutional efficiency, structural adjustment, concepts of sustainability, mobilization and growth of human capital, and the globalization and liberalization of world trade. Economic development is seen as a process heavily influenced by a set of favorable legal and institutional environments, which form an integral part of the governance framework of a state. Structural adjustment seeks to liberalize markets, promote exports, deregulate trade, and relies on the private sector as the engine of growth. The quality of human capital is critical for this new approach. It is seen as a major factor in determining the rate of economic growth, particularly relevant in matters of innovation, entrepreneurship, and the ability of a country to integrate into world markets.<sup>23</sup> “If Bangladesh has not been able to substantially attract American private investment, it is due to the fact that the question of political stability of Bangladesh is of overriding importance to the investors. The sense of insecurity and the extent of the inconsistencies due to prolonged instability have worried the foreign investors. Additionally, the overall underdeveloped economy of Bangladesh, too, has dissuaded the foreign investors from investing in that country.”<sup>24</sup>

Globalization demands pragmatic policy of the state and reorganization of core competencies of governments at different levels. The crisis Bangladesh faces in coping with globalization stems mainly from its inability to ensure a committed political

leadership, a functioning democracy, an efficient and responsive bureaucracy and a counter-veiling civil society. The political leadership is a crucial factor in the process of evolving good governance in Bangladesh. Many Southeast Asian countries' experience shows that an honest, patriotic and rational leadership can have far-reaching impact on the pattern of political and economic changes of nations. In Bangladesh, political leaderships have been failing again and again in sustaining democratic governance mainly because of their jealousies and inability to resolve power conflicts in a peaceful manner.<sup>25</sup>

Major Rusho rightly points out that good governance hinges mainly on how the law is used by the state as an instrument of public policy that holds moral conduct to be a matter of rule following. At the same time, political leaders should be made responsible for individual and respective party actions and policies. The legal framework of governance should create a more attractive environment for globalization, or investment that will garner more resources for the country.<sup>26</sup>

### Corruption

Anthony Mascarenhas points out that when Bangladesh was born, its first days were down the path of corruption. Instead of cleansing out the top ranks of the old Pakistani regime, Sheikh Mujibur Rahman (Known as 'Bangabandhu', the father of the nation) put those folks into positions of power because they now said they were absolutely loyal to Bangladesh and its cause<sup>27</sup>. Mascarenhas quotes M.R. Akthar, from his book *Mujibur Rakta Lal* as saying, "There is no parallel in the history of any country where after a protracted and bloody liberation war the defeated bureaucracy and the military officers were not only given continuity of service but were also accepted in the

new regime with great respect while the patriots were excluded.” Indeed these are inauspicious beginnings to a new government and new country. Mascarenhas does not place all blame on Sheikh Mujib; those “who followed him, put the seal on it all. All this – resulting in corrupt, unresponsive and effete administration – had had the most disastrous consequences for Bangladesh.”<sup>28</sup> For the past two years Bangladesh has drawn international attention for being rated in the corruption perception index of Berlin-based Transparency International as ‘the second most corrupt nation’ in the whole world.<sup>29</sup>

Mahathir shows what corruption will do to the society. “When corruption is openly practised . . . its effects on a nation are most pernicious. First, the government is weakened . . . loses revenue [and] will not be able to collect enough revenue to run the country. If government has insufficient funds, social services like education, health, public utilities and others cannot be given. Not only will it be impossible for the nation to progress; the gap between the rich and the poor will grow wider.” Mahathir continues, “Justice will lose its meaning and the majority of people will sink into despair.” The effects of will pervade all parts of the society, “the economy of a country may be ruined by corruption . . . consumers will have less income and business will decline.”<sup>30</sup> Mahathir indicates, “it is vital to recognize corruption not just as a part of culture but as a disease with definite consequences. Stamping out corruption needs honesty.”<sup>31</sup>

### Effects of Corruption

“Corruption main bar to investment,” comes hot off the press as a top headline in *The News Today*, which also states that corruption obstructs the growth of industries.<sup>32</sup> Mahathir said corruption causes business to decline. There are views within the elite thinkers of Bangladesh that the, “criminal underworld, corrupt police force and power

hungry politicians . . . may be taking a permanent shape affecting Bangladesh economy.”<sup>33</sup> Ambassador Ballero noted investors, too often, face bribery and technical difficulties, which has the effect of causing the wave of investment to move away from Bangladesh.<sup>34</sup> This is unfortunate but shouldn’t be unexpected; bribery drives up the prices and decreases profits, and as the Ambassador says, “investors any where would like to get a return on their investment, and only by giving them that confidence, Bangladesh can achieve something.”<sup>35</sup> The negative impact of corruption on investment may derive from the added risk that corruption brings to investors’ calculations.<sup>36</sup>

### Making the private sector the primary engine of its economic growth

#### General

The privately owned industries mainly proved to drive the economy of Bangladesh in last decades. Apparel, poultry, frozen food, and pharmaceutical industries gradually took over the charge of economic engine in Bangladesh from the traditional Agricultural sector. Along the way, Bangladesh has made the transition from being primarily a jute exporting country to a garment-exporting one. This transition has been dictated by the country’s resource endowment, characterized by extreme land scarcity and a very high population density, making economic growth dependent on the export of labour-intensive manufactures.<sup>37</sup> Let us now look at the Textile and Clothing Industry of Bangladesh as one of the primary economic engine, which is entirely run by the private sector.

### Textile and Clothing Industry

Textiles and clothing industry together account for more than 76 per cent of the country's total export earnings as can be seen from figure 3.

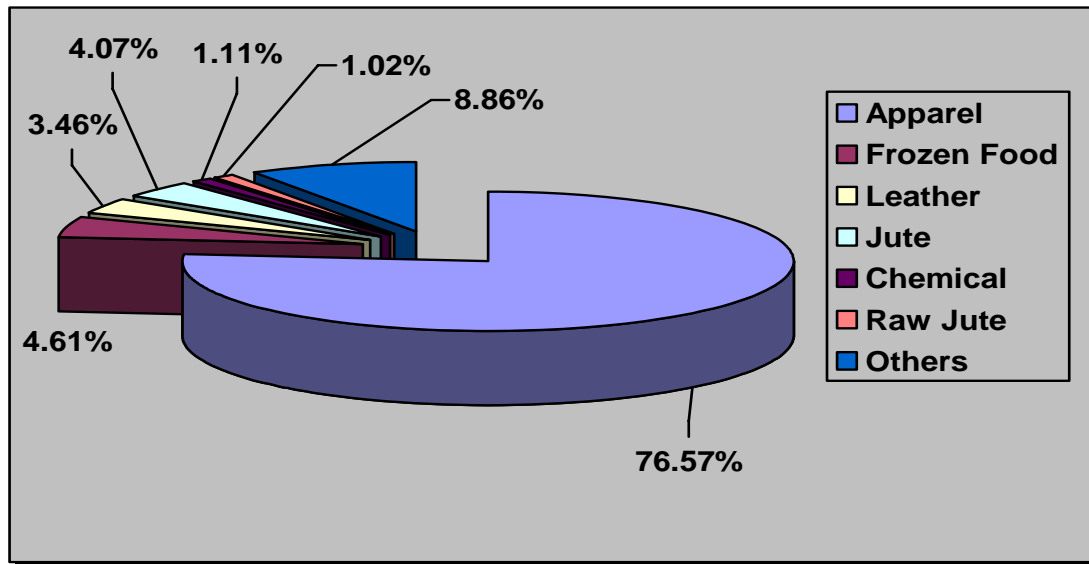


Figure 3. Export Sector Performance of Bangladesh (2001-02)

Source: Ali Md Hossain, *Bangladesh Country Paper on RMG Industry of Bangladesh*, 10.

The exports are destined mostly for the United States of America (USA) and European Union markets, to which up to recent time Bangladesh had privileged access by the Multi Fibered Agreement (MFA) and Generalized System of Preferences (GSP). This private sector of Bangladesh is now facing challenges that need to overcome to maintain growth. The Textile and Clothing industry is encountering challenges from mainly two areas as described subsequently.



## Phasing Out of MFA

MFA is in the process of phasing out since 2004. After it is completely phased out, Bangladesh is likely to face greater competition in the world market from other garment exporting countries. Now, raw cotton producing and self-sufficient backward linkage countries will compel Bangladesh to compete on a more level playing field. For Bangladesh, the abolition of MFA has far reaching implications in terms of loss of jobs and reduction in foreign exchange earnings in the Ready Made Garments (RMG) sector. The jobs and working conditions of the RMG and textile workers are most likely to worsen due to competitive pressures arising from other countries participating in globalization. This pressure may force the entrepreneurs to cut costs in the form of either lower wages or retrenchment of workers. Thus, not only worker's employment will be at stake but also the working conditions are not expected to improve<sup>38</sup>. Weak market strategy, absence of backward linkage industries, lack of FDI and incoherent infrastructural facilities have further contributed concern over the future of the RMG industry. The cost of business is also increasing primarily due to port problems, bureaucratic tangles in custom department and no improvement in lead-time. In contrast, an increasing number of countries are offering low-cost products. Competing countries like Vietnam, China, and Thailand are entering the global market with products that Bangladesh is exporting and as a result intensifying competition and dipping prices.

## United States Trade Development Act (USTDA) 2000

Enactments of USTDA 2000 will also challenge the RMG sector. The USTDA 2000 provides duty and quota-free access to 48 countries of Africa and 24 countries of the Caribbean Basin for exporting textile and apparel products to the USA market<sup>39</sup>. The

Caribbean Basin countries are Bangladesh's direct competitors in the USA apparel market. USTDA 2000 is expected to cause trade diversion from Bangladesh in favour of Caribbean Basin Initiative (CBI) countries. The value per Square Meter Equivalent (SME) of apparel exports to the USA from Bangladesh already have the lowest value compared to three other major exporter as can be seen from figure 4. It has been estimated that Bangladeshi manufacturers will need to reduce production costs by some 15-20 per cent in order to overcome their tariff disadvantage relative to CBI countries<sup>40</sup>. Further lowering of prices is likely to have a telling effect on the RMG industry. Thus, although the garment industry does lead Bangladesh to steady economic growth but it requires being flexible and adaptive to continue to do so.

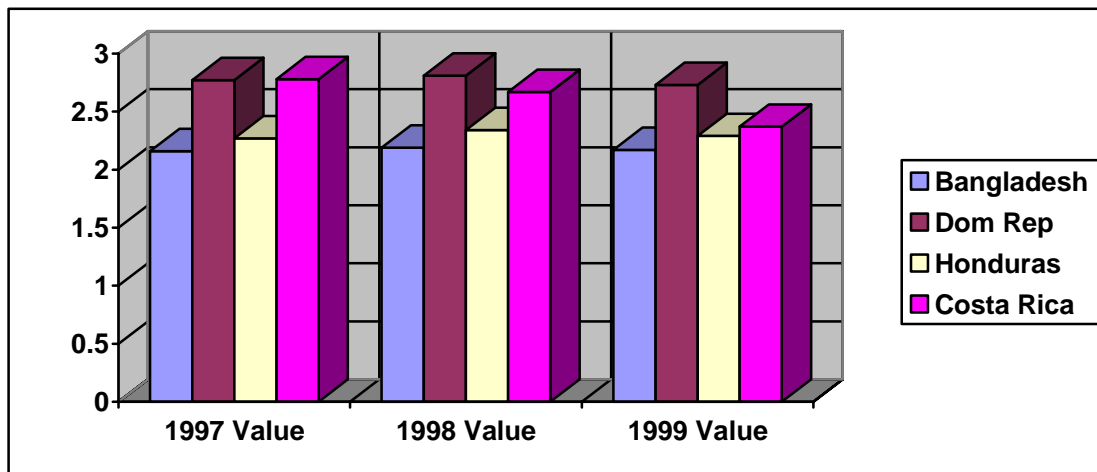


Figure 4. Value per SME for Selected CBI Countries and Bangladesh to United States  
Source: Azim M Tahlin and Nasir Uddin, "Challenges for Garments Sector in Bangladesh After 2004: Avenues for Survival and Growth," *Bangladesh Institute of International and Strategic Studies Journal* 24, no. 1 (January 2003): 64.

## Privatizing State-Owned Industries and Utilities

### Restructuring and Privatization

The Government of Bangladesh has adopted a policy of restructuring, downsizing and privatizing public utilities and SOE to reduce fiscal deficit and improve efficiency as Freedman recommends. Up till fiscal year 2001, 502 enterprises out of 586 public industrial enterprises had been sold or disinvested. As of end 2001, the public sector included over 40 percent of Bangladesh's manufacturing and utility assets<sup>41</sup>. A time bound action plan has recently been adopted by the Government to stop losses of remaining SOEs and make them profitable. The immediate impact of privatisation has been the closure of traditional industries, massive job loss for workers, and "de-industrialization".

### Labour Issues Warning on Privatization

In 2003, the World Bank called for the disposal of some 220 publicly owned enterprises in the paper, food, and textile sectors in order to free up state funds for socioeconomic development and poverty alleviation. Meanwhile, the IMF pledged some \$500 million in aid over the next three years to help the government implement a state divestiture program that targets some 100 companies for sale by 2005. In mid-September 2003, 11 unions organised a one-day nationwide stoppage to protest the government's privatization plans<sup>42</sup>.

If fully implemented, the program could result in the loss of as many as 150,000 jobs, and it is this prospect that prompted action by the unions. However, the finance ministry contends that inefficient state-owned enterprises cost the government more than

\$500 million each year, and the government appears to be committed to moving forward with privatization<sup>43</sup>

How can the process of restructuring and privatisation be better managed in order to minimize the social and economic costs to workers and the economy as a whole? What can be done to assist SOE workers for whom job alternatives are few and social security is inadequate? In what way could labour management relations become a positive factor for more socially responsive restructuring? There are enterprises that have undertaken steps to improve industrial relations and consultations between employers-management and workers; these could be the basis for more pro-active ways of managing the social and labour issues of restructuring and privatization<sup>44</sup>.

### Impacts of Privatization

The opening up of the state-owned power sector to the private sector alone means very large increases in foreign investment. Telecommunication, rail, and air transportation are the other main areas, which require immediate privatization. In general privatization builds a sense of competitiveness among the service providers, lessens the time of response and ensures better customer services.

Chapter 5 of this paper is going to set out the options for Bangladesh in light of the Freedman's concept of economic globalization through golden straitjacket discussed so far in the paper.

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<sup>1</sup>Ambassador Pietro Ballero, "The Decision Making should be faster," *The Diplomatic Journal* 22 (October 2003): 7.

<sup>2</sup>"Corruption," *The News Today*, 2 September 2003, 5.

<sup>3</sup>Ibid.

- <sup>4</sup>Ibid.
- <sup>5</sup>“Bangladesh in 2020,” *World Bank and Bangladesh Enterprise Institute*, 92.
- <sup>6</sup>Anwar Parvez Halim, “The Traffic War; DTCB Fights Back.” *Probe News Magazine* 2, no. 20 (October 2003): 24.
- <sup>7</sup>Ibid., 25-26.
- <sup>8</sup>Brigadier General Shakil Ahmed, ndc, psc, “Transit and Transshipment: Implications for Bangladesh,” *NDC Journal* 2, no.1 (June 2003): 18.
- <sup>9</sup>David Dollar and Caroline Anstey, “Globalization, Growth, and Poverty: Building an Inclusive World Economy.” *World Bank* (December 2001); available from <http://www.worldbank.org>; Internet; accessed on 16 March 2005.
- <sup>10</sup>“Corruption,” 5.
- <sup>11</sup>“Bangladesh in 2020,” 89.
- <sup>12</sup>Dr. Sarbjit Sharma, *US–Bangladesh Relations: A Critique* (New Delhi: UBS Publishers, 2001).
- <sup>13</sup>Ibid., 21.
- <sup>14</sup>Maj Mustafa Kamal Rusho, psc, “Globalization: Challenges To National Security -Bangladesh Perspective,” *Mirpur Papers* (Dhaka) 2001, 91.
- <sup>15</sup>M. Shafiqul Alam, “Govt Decides to Examine Pros and Cons of FTAs; Two Official Level Taskforces Formed,” *The Financial Express* (Dhaka), 3 May 2003: front page news.
- <sup>16</sup>“World Trade Organization,” *Trade Policy Review: Bangladesh*, May 2000, 10.
- <sup>17</sup>Ibid.
- <sup>18</sup>Imtiaz Ahmed, “Poverty Alleviation & Macro-Micro Linkages: Critical Issues,” *BIISS Journal* 23, no. 1, (January 2002): 112.
- <sup>19</sup>Ibid.
- <sup>20</sup>Inder Malhotra, “Dynasties of India and Beyond; Pakistan, Sri Lanka, Bangladesh,” (New Delhi: Harper Collins, 2003): 304.
- <sup>21</sup>S. H. Zahid, “Economy Under Alliance Government,” *Probe News Magazine* 2, no. 20 (October 2003): 21.
- <sup>22</sup>“Bangladesh in 2020,” 91.

<sup>23</sup>G. Shabbir Cheema, *A Governance Approach to Development: New Role for Development Co-operation* (Dhaka: University Press, 2000), 541-542.

<sup>24</sup>Sharma, 107.

<sup>25</sup>Rusho, 89.

<sup>26</sup>*Ibid.*, 97.

<sup>27</sup>Anthony Mascarenhas, *Bangladesh A Legacy of Blood* (London: Hodder and Stoughton, 1986), 14-15.

<sup>28</sup>*Ibid.*, 16.

<sup>29</sup>Abul Kalam, "National Security of Bangladesh in the Twenty-First Century," *BISS Journal* 23, no. 1 (January 2002): 102.

<sup>30</sup>Mahathir Mohamad, *The Challenge* (Malaysia: Pelanduk Publications, 1986), 144-145.

<sup>31</sup>*Ibid.*, 153.

<sup>32</sup>"Corruption," 5 (The article further states that lack of infrastructural facilities is a major obstacle constraining the country's investment climate and thus retarding the growth of industries.)

<sup>33</sup>Kalam, 99-100.

<sup>34</sup>Ambassador Ballero, 7.

<sup>35</sup>*Ibid.*

<sup>36</sup>Lawrence E. Harrison and Samuel P. Huntington, *Culture Matters: How Values Shape Human Progress*, (New York: Basic Books, 2000): 115.

<sup>37</sup>Wahiuddin Mahmud, Professor of Economics, University of Dhaka, and former Minister of Finance and Planning of the Caretaker Government of Bangladesh, *Bangladesh Faces the Challenge of Globalization*, 22 October 2003; available from <http://www.globalenvision.org/library/3/558>; Internet; accessed on 16 March 2005.

<sup>38</sup>Abdul Hye Mondal, "Study on Impact of Globalization on Business, Industry and Workers in Bangladesh: Challenges and Opportunities," *Bangladesh Institute of Labour Studies*, June 2003, 12.

<sup>39</sup>ASM Quasem, "Backward Linkages in the Textile and Clothing Sector of Bangladesh," *Executive Forum on National Export Strategies*, 2002, 5.

<sup>40</sup>ASM Shahidul Haque, “Impact of Global Changes on the Textile Industry of Bangladesh,” *Journal of International Affairs* 6, no. 3, (July-December 2002): 106.

<sup>41</sup>Muqtada, “Bangladesh Country Profile 2002,” *Economic Intelligence Unit*, 2002, 14.

<sup>42</sup>“Bangladesh Country Forecast Comment & Analysis.” *Political Risk Group*, 1 November 2003, [article on-line]; available from [www.prs.com](http://www.prs.com); Internet; accessed on 16 December 2004, 13.

<sup>43</sup>*Ibid.*

<sup>44</sup>“Bangladesh, Concept note,” *Decent work pilot programme*, [article on-line]; available from <http://www.ilo.org/public/english/bureau/dwpp/download/bangladesh/bangconceptnote.pdf>; Internet accessed on 21 February 2005, 5.

## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

Analysis in chapter four shows that Bangladesh has the strong potential to take the advantages offered by globalization as envisioned by Friedman in his concept of the golden straitjacket. This thesis has shown, Bangladesh is actively engaged in meeting the criterion for a global economy and obviously the main areas to focus are, 'Removing restrictions on foreign investment', 'Eliminating government corruption, subsidies and kickbacks as much as possible', 'Making the private sector the primary engine of its economic growth', and 'Privatizing state-owned industries and utilities.'

#### Conclusions

In simple words globalization is all about interconnectedness. Country, nations, organizations, companies, groups or even the individuals are now far more connected to each other because of the globalization. Development of technology in terms of communication as a whole and information management and sharing are the main driving force of this massive globalization. After the end of cold war, globalization has now become the new world order. It has very far-reaching effect on most aspect of human life, which includes economic, political, cultural, and social dimensions. Above all its effect on the national security can never be ignored.

Globalization should not be looked as a means for providing more resources to a country and expect countries to have adjusted them to derive benefits from it. Globalization has definite linkages to national security. Concern is necessary toward both the old fashioned type of territorial security, and also whether the multinational



enterprises that desire to invest within the country are going to abide by the laws of the country. Greater investment in Bangladesh will increase the resources available for Bangladesh and it will add to the economic stability of the country, which in turn will tackle the threats to the national security that emanate from both within and outside the country.

Globalization has both positive as well as negative impacts on its players. In an increasingly open, integrated and borderless world there have been remarkable growths in trade and exchanges. It was basically possible because of the democratization of technology, finance and communications. On the other hand globalization also generates number of problems. Many conflicts at national and international level are the product of globalization. Because of the interdependency of nations on one another, financial instability caused in any such nation may have far reaching impact on other associated nations of the region or the globe. Non-state actors like big firms or the multinational entities are now having increasing influences on the economies of the nations especially the small states like Bangladesh.

Bangladesh is a very low level player in the world of economic globalization. FDI could be one of the main fields that Bangladesh should focus to acquire required resources to be economically globalized. Numerous facts and studies points at the infrastructure of Bangladesh which is adversely affecting further investment and globalization occurring within the country. The information and logistics infrastructures require some immediate upgrades and reforms to attract more investment. Particulars like the port operations at Chittagong and lack of capable telephone and power systems cause investors to look to areas other than Bangladesh.

Developed countries derive more benefits from globalization because they are stable. The developing countries place themselves at a disadvantage – missing out on resources available through foreign direct investment because they are not offering investors a stable and safe environment in which to invest their money. The challenge to developing countries is to make their countries look attractive to investment. This will only be accomplished by adopting law and order that will produce good governance, reducing corruption that will increase profit as well lower prices to consumers.

In the nineties, the positive contribution by the private sector indicated significant improvement in the economy of Bangladesh. The economy was growing, FDI was on the rise, and a great segment of the population found decent employment for living. All these took place mainly because of the garment sector of the time. Bangladesh also received privileged terms and conditions from the investing nations in this sector. MFA is one such privilege, which is now in the process of abolition since 2004. Bangladesh is now facing serious competition from other garment exporting countries. After 2004, numbers of low-cost apparel producing countries are increasing and raw cotton producing and self-sufficient backward linkage countries are now compelling Bangladesh to compete on a more level playing field. The USTDA 2000, which provides duty and quota-free access to 48 Sub-Saharan and 24 CBI countries, is expected to lead trade diversion from Bangladesh in favour of CBI countries. It has been estimated that Bangladeshi manufacturers will need to reduce production costs by some 15-20 per cent in order to overcome their tariff disadvantage relative to these countries. Furthermore, the jobs and working conditions of the RMG and textile workers are most likely to worsen when competitive pressures force the entrepreneurs to cut costs in the form of either lower

wages or retrenchment of workers. Efficient market strategy and policy, establishment of backward linkage industries, and improvement of product quality and infrastructure may help in overcoming the challenges faced by the RMG industry.

In contrast to the private sector, the public utilities, and the SOEs in Bangladesh generally performed ill in the overall economic growth of the country. Investing entities always put pressure on Bangladesh to privatise industries, services, and utilities. But, the labour organisations always opposed the government decisions on the issue mainly to guard the huge loss of job, which is unavoidable.

In the era of globalization, Bangladesh has to be ready with multifaceted means to follow multifaceted tracks of growth for the well being of her people. She has to chart a policy destiny and strategic course of action to confront the complex and multidimensional problems of globalization. Economic reform process of Bangladesh has to be redesigned to boost indigenous-led industrialization for industrial dynamism and higher employment. Reforms in banking, state enterprises, energy, telecommunications and public sector management have to be pursued in earnest to boost investor confidence and raise domestic and foreign investment. Strengthening local government by decentralising power, making fiscal and monetary policies complementary and modernisation of the two seaports will make Bangladesh more equipped in facing the challenges of globalization. Above every thing Bangladesh needs to ensure good governance and stamp out corruptions at all level to encourage the investors.

Liberalisation of economy in Bangladesh seems an inevitable measure to meet the economic challenges of globalization. Along with liberalisation, government should encourage foreign investment. Moreover, Bangladesh needs to have an honest, efficient,

committed and professional public service that enhances the accountability and responsiveness of public agencies. Bangladesh should make sustained efforts to strengthen and promote economic development through a more focused and action-oriented economic diplomacy. Economic diplomacy has to have its base on an export-led growth.

Bangladesh needs to develop an institutional framework to ensure meaningful cooperation between the public and private sectors. For effective resource management, the government needs to broaden the tax base and enhance the efficiency of the tax system and rationalize the state owned enterprises. All these steps, if implemented, may give her a scope to maintain a sustained growth in the face of likely economic peril.

### Recommendations

#### Ameliorative Measures to Deal with the Negative Impacts

##### Textile and Clothing Industry

Market Strategy and Policy. Industrial and trade policy concerning the textile and clothing sectors must be formulated from a dynamic and long-term perspective.

Bangladesh needs to diversify its exports away from textiles and clothing toward high value added and high technology products for which demand is more income-elastic.

Bangladesh should also continue to lobby for preferential access to the USA market. The marketing strategy of the RMG industry needs to improve and help from public and banking sector is essential in this regard. Emphasis should be placed on creating facilities so that the producers can have direct relationship with the buyers, mainly with retailers.

The need for exploring the Australian, Japanese and other Asian markets should also receive attention.

Establishment of Backward Linkage Industries. Backward linkages for the RMG industries need to be developed urgently to meet the challenges after 2004. Already around 40 percent of the fabric for woven garments is produced domestically<sup>1</sup>. By establishing backward linkages, we can reduce the lead-time from 90-120 days to 45-60 days<sup>2</sup>. The private sector in Bangladesh should be encouraged to come forward to capture the fabrics market by producing fabrics domestically. In this regard, proper tariff policy for the development of backward linkages in the country should also be formulated.

Foreign Direct Investment. FDI in RMG industry should be welcomed and pursued to ensure higher investment in this sector. FDI would also help in transferring technology and ensure bigger market access by providing direct linkages with the retailers.

Improvement in Product Quality and Infrastructure. Quality production is a must in the post MFA period. Therefore increasing labour productivity is required. Infrastructural improvement and better shipment facility also demand considerable attention. Technological upgrading of the industry as well as skill up gradation of the workers will go a long way to meet the challenges of globalization.

However, as an alternative to RMG sector in Bangladesh the country should now look for alternative industries to compensate the foreseeable fall in the economic growth. Pharmaceutical industry provides a good window of opportunity in this regard.

### Pharmaceutical Industry

Hopes

The Trade Related aspect of Intellectual Property Rights (TRIPS) agreement of WTO is likely to open a new doorway for the pharmaceutical industry of Bangladesh. As

per the TRIPS agreement, major medicine exporting countries like China and India will have to implement twenty-year patent term as prescribed by Patent Law of TRIPS. As a result, these two countries will not be able to export on-patent drugs from January 01, 2005. On the other hand, as a member of the Least Developed Countries (LDC) group, Bangladesh will be enjoying the exemption of the Patent Law up to 2016. So, the pharmaceutical items can be turned into one of the largest export items. Despite all odds, Bangladesh exported pharmaceutical products worth Tk 100 crores in 2001<sup>3</sup>. This export is really insignificant as compared to the actual opportunities prevailing in the world market. The volume of the world pharmaceutical products is \$ 400 billions<sup>4</sup>. Bangladesh can earn a lot more than the previous years if some problems are addressed immediately. The major problems include transfer of operational expense, lack of quality control and price monitoring, and pilferage during shipment.

### Concerns

Maximum Bangladeshi companies are overly dependent on India and China for Active Pharmaceutical Ingredients (API) to produce new pharmaceutical products. Inclusion of India and China under TRIPS from 2005 is likely to raise the API price and resulting price increase of domestic pharmaceutical products. Between the period 2005 and 2015, domestic companies may also face difficulty to launch new on-patent products because of shortage of APIs. This is likely to cease the production of some available on-patent drugs in Bangladesh thereby incurring revenue loss to the industry. More over, insufficient backward linkage industries, lack of quality control and price monitoring, and weak education base are also likely to effect growth of this industry.

## Remedies

Backward Linkages. Local enterprises that are producing medicines for export have to become self-reliant in the procurement of their raw materials. For this, backward linkages have to be established to stop import of raw materials for making capsules, tablets and liquids.

Patronisation by Government. Government needs to encourage local producers to produce raw materials through various incentive providing measures. This sector needs to be specially patronised by the government and financial institutions. Government may further reduce duties on the raw materials imported by the local medicine industries although such duties now are relatively lower<sup>5</sup>. Further reduction of duty will boost the export competitiveness of these industries and also result in cheaper medicines in the local market.

Quality Control and Price Monitoring. Local drug companies should pay more attention to quality control and enacting proper policy and regulation should ensure this. The pricing of local medicines is to be properly monitored. It is to be ensured that local companies market the medicines at low prices to consumers for which they are already being given many concessions.

Pharmaceutical Education. The existing base of the pharmaceutical education will have to be enlarged and made stronger. In this task, both the government and the pharmaceutical industry should participate. Government, on its part, can increase allocations for expanding facilities for pharmaceutical education in the country. The pharmaceutical industries can liaison with educational institutions to help in the creation and sustenance of similar facilities with their funding.

## Employment

Trade Union and Workers' Organization. Trade unions have to come to terms with the effects of globalization and international competition. They have to reinforce the necessary knowledge and analytical skills of workers for this purpose. They should also pursue proper implementation of legislation to ensure minimum wages for workers. In addition, workers' organizations need to develop a capacity so that they can more effectively defend their members' interests. Since many corporate decisions are being taken at a global level, workers also need to establish network across sectors and beyond national borders.

Participation. Globalization can help the workers overcome their vulnerability if they can be prepared to participate in the globalized market. Information technology should be brought to the access of the workers to participate in and take advantage of globalization. They need to get organized more forcefully and promote the cause of workers' rights for conflict resolution.

## Agriculture

Economic Diplomacy and Bilateral Ties. Bangladesh should foster strong economic diplomacy to protect her agriculture sector. She needs to develop meaningful bilateral ties with other developing countries to make their voice heard against protectionism and subsidization of developed countries. She should pursue developed economies to open up their markets for the LDCs with zero tariff provision without any condition.

Reforms and Protection. For her part, Bangladesh needs to protect her agriculture sector till the abolition of agricultural subsidies of the developed countries. More over she



should invest in agricultural research and development, roads and rural infrastructure to make the sector sustainable. Efforts should also be made to ensure the preservation of indigenous knowledge with respect to seeds, plants and herbs. Particular attention should be given to developing and adapting technologies and improved agriculture practices in ecologically vulnerable areas. Effective resource management, good governance and cooperation between public and private sector are needed for sustainable development of the agriculture sector.

Innovative and Active Marketing. Bangladesh needs a proper assessment of its domestic production needs, import requirements and export potential for the removal of subsidies. She needs to explore new avenues in agro-based sector and produce innovative products to make it more profit-making and export-oriented sector. The government should persuade more finished products from agriculture sector to generate value addition to the national economy. Steps can also be taken to establish an agro-based export-processing zone in the country.

### Ways Ahead For Bangladesh

#### General

In this age of information revolution, Bangladesh cannot remain static in the race to catch up with the fast moving diverse modes of global change. She has to be ready with multifaceted means to follow multifaceted tracks of growth for the well being of her people. She has to chart a policy destiny and strategic course of action to confront the complex and multidimensional problems of globalization. Following are the areas, which Bangladesh must pursue to exploit the benefits of globalization.

## Economic Reforms

Economic reform process has to be redesigned to boost industrialization. All stakeholders specially the workers need to be involved in the decision making process. Government should be fully committed to accelerate economic reforms that would lead to faster economic growth and poverty alleviation. Necessary steps should also be taken to maintain macroeconomic stability. Fiscal discipline needs to be observed through more effective tax administration and a tightly controlled public expenditure programme. Reforms in banking, state enterprises, energy, telecommunications and public sector management has to be pursued to boost investor confidence and raise domestic and foreign investment. Privatisation ought to be stepped up to stop the losses of the state-owned enterprises. Strengthening local government by decentralising power and modernisation of the two seaports will make Bangladesh more equipped in facing the challenges of globalization. Modernising customs, police and civil services and scrapping unclear, obsolete and controversial laws can be other key recommendations.

## Good Governance

Politics should be taken in normative, creative and problem solving terms. There is a necessity to overhaul the rules and processes by which the government conducts its policy and decision making functions. Government will have to maintain an honest, efficient, committed and professional public service, which enhances the accountability and responsiveness of public agencies to citizens. Along with liberalization, government should maintain a certain balance between foreign investment and state regulation to maintain its influence for national capability building<sup>6</sup>. To minimize corruption,

transparency in public bodies and political parties is essential. Separation of the judiciary from the executive arm of government is absolutely necessary to sustain the rule of law.

#### Sustainable Information and Communication Infrastructure

Bangladesh needs to strengthen the information and communication system of the country without further delay. Appropriate information and education system will be able to meet challenges of any nature from any source. The ability to grasp information and communication technology (ICT) depends on the capacity of the whole society to be educated. More importantly, effective integration into the globalized network requires science and technology literacy as well as diffusion. The country should take serious steps to build the infrastructure of information and knowledge.

#### Effective Strategies and Policies

Strategies should be harmonized both internally and externally. These should be growth oriented and business friendly. Country's economic and trade policies should ensure maximum benefits not only from the ongoing changes but also by anticipating future changes in vital sectors. The industrial policy must be attuned to domestic production and consumer-oriented sectors such as agro-based industries or to promising sectors such as IT<sup>7</sup>. Bangladesh must evolve a policy and development strategy that is secure and guarantees a sustainable future for the current and also for the prospective generations. Instead of being solely dependent on one particular industry, Bangladesh should diversify her industrial sector.

### Economic Diplomacy and Formation of Trade Bloc

Economic diplomacy must be played in the right earnest and in its proper context. It has to have its base on an export-led growth especially considering the needs of the nations underprivileged half, the feminine gender, the children and the poor<sup>8</sup>. Diplomatic efforts should be undertaken for more Bangladeshi citizens to work abroad. Every step should be taken to exploit the South Asian Association for Regional Cooperation (SAARC). Bilateral economic alliance with powerful Association of South East Asian Nations (ASEAN) country like Malaysia is likely to pay dividends.

### Public Private Cooperation

To face the challenges of globalization, cooperation between the public and private sectors are essential. Bangladesh lacks an institutional framework to foster meaningful cooperation between the two. There is no system of regular consultation between government and representatives from the private sectors<sup>9</sup>. Bangladesh needs to establish institutional mechanisms for building co-operative relations between the government and private sectors.

### Resource Management

All resources particularly population have to be mobilised effectively. For effective resource management, the government would limit the use of non-concessional loans, broaden the tax base and enhance the efficiency of the tax system and rationalize the state owned enterprises.

## Final comment

Globalization has a very far-reaching effect on almost every sphere of life. In the question of economic development and growth it is even more being in this era of globalization. Developing country like Bangladesh must take the advantages of globalization and attempt to improve her economy. Friedman's concept of golden straitjacket can work as a good start point in this wise effort with special emphasis on the relevant four issues discussed in this paper. As I find thru my research, Bangladesh's potentials to economic globalization is highly promising. I believe that the recommendation made in this paper if implemented well will take Bangladesh to a point of sustained economic growth and development.

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<sup>1</sup>Seminar Paper, "A Value Chain Analysis of the RMG Sector in Bangladesh: Beyond MFA," Organized by the *Bangladesh Institute of Development Studies, Institute of Development Studies (Sussex) and Oxfam-Great Britain-Bangladesh Program*, January 2003, 2.

<sup>2</sup>Md Saiful Haque, "Critical Challenges Await the Economy's Thrust Sector," *The Independent* (Dhaka), 15 May 2003, 4.

<sup>3</sup>Zahid Hossain, "Bangladesh export strategy: Why not export more pharmaceutical products?" [Article on-line]; available from <http://lists.essential.org/pipermail/ip-health/2002-December/003980.html>; Internet; accessed on 16 December 2004, 3.

<sup>4</sup>Ibid.

<sup>5</sup>"Potentialities of the Pharmaceutical Industry." *The New Nation* (Dhaka), 7 July 2003, 5.

<sup>6</sup>Delwar Hossain, "Managing the Globalization Syndromes in Bangladesh: Some Options for Future," *BISS* 23, no. 1 (January 2002): 51.

<sup>7</sup>Abul Kalam, *Globalization and Bangladesh in the New Century* (Dhaka: Palok Publishers, 2002), 86.

<sup>8</sup>Ibid., 89-90.

<sup>9</sup>Hossain, 52.

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